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CHARGEBACKS: A STICKY MATTER

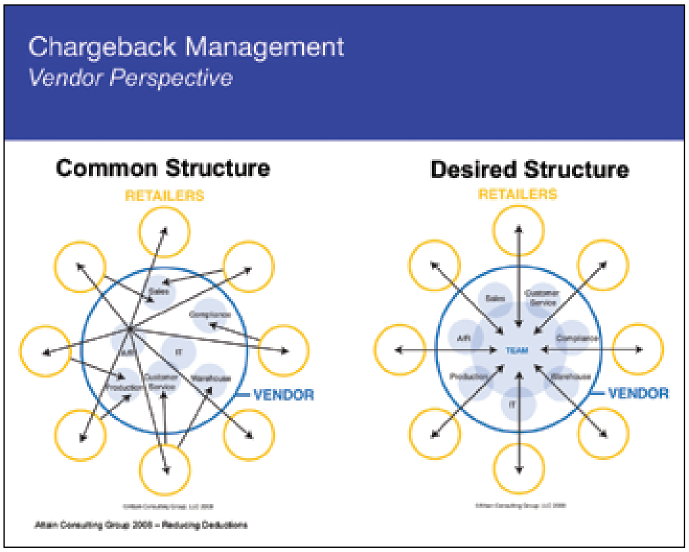
A Better Way?

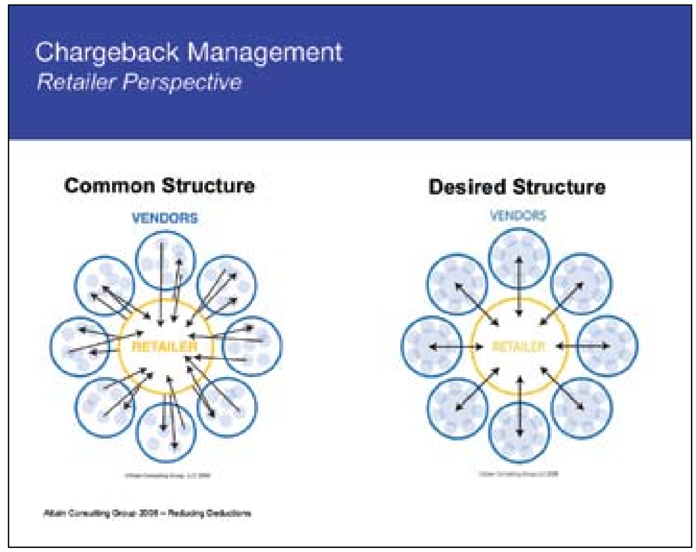
Vendors and Retailers Alike Need Efficient Information Within, Without Their Organization to Effectively Manage Chargebacks **By Powell Slaughter**

Vendors and retailers can resolve many chargeback situations more easily and quickly if they just talk—to each other and among their respective staffs with responsibility for quality, delivery and finance.

That's the word from Jessica Butler, who's build a consulting niche in chargeback management in a variety of industries. Butler founded Attain Consulting Group in Ridgewood, N.J., which specializes in helping companies reduce their chargebacks and "deductions," as they're called in some sectors.

Take Control of Deductions
Contact Jessica Butler at:
Phone: 201.280.4773
Email: jbutler@attainconsultinggroup.com
Websites:
www.attainacademy.com
www.attainconsultinggroup.com





She also established Attain Academy, which uses Web-based learning seminars to educate companies' staff on chargeback-related issues and best practices. A year-and-a-half ago, she worked with 20 companies in sectors including apparel, home furnishings, footwear and consumer electronics to form the Compliance Advisory Board, which is developing best practices concerning chargeback and deduction issues.

The first step is understand how some chargebacks are more easily documented and resolved than others.

A Glimpse Outside Furniture

Other Retail Sectors Could Provide Insight on How to Handle Chargebacks

By Powell Slaughter

Consultants George Whalin and Jessica Butler, who've worked with clients in retail and vendor sectors beyond furnitureland, shared some thoughts that could interest furniture retailers.

Whalin, president and CEO of Retail Management Consultants in Carlsbad, Calif., saw some parallels with apparel, a sector where retailers and vendors ended up getting squaring off over chargebacks.

"The apparel business went through a really bad period four or five years ago," he said. "Like furniture, you had a lot of small vendors, and there were some big powerful retailers, department stores and apparel chains that took advantage of it—basically did whatever they wanted."

"If a shipment didn't arrive on the exact date—shipping's not an exact science, you need a day or two leeway—they charged it back. Finally, the vendors got together and said, 'We aren't going to take this anymore.'"

Jessica Butler, founder of Attain Consulting Group in Ridgewood, N.J., said it's more individual companies than entire sectors that do a good job managing chargebacks.

She did point to the grocery industry as one that had its act more together than some others.

"Because they have so many trade promotions and products, they are more sophisticated in general in the way they process that information," Butler said.

She also said retailers in some sectors are getting more sophisticated with "pre-deduction notifications," which provide vendors with a grace period to resolve problem areas before the retailer issues a chargeback.

"They might give 30 days or 60 days before they chargeback," Butler said. "That leads to a more responsive vendor: 'The earlier you let us know, the earlier we can fix the problem and get the goods to your sales floor.'"

And while a general settlement is Butler's last step in chargeback resolution, if the sheer number of deductions is overwhelming, it can work for both sides in terms of time and ultimately expense.

"Take Wal-Mart. They don't have a lot of compliance regulations, but they have ways they want things done," Butler said. "They have a settlement group. I've worked with clients who've had 6,000 individual chargebacks with Wal-Mart."

With the settlement group, the vendor sends a spreadsheet of chargebacks. A certain number get hashed out in detail, and a settlement is reached.

"You resolve all 6,000 in one swoop in a way that's amenable to both sides," Butler said.

THREE KINDS OF CHARGEBACKS "When I look at chargebacks or deductions ... I put them in three buckets," Butler said.

The first are "intentional" chargebacks—the deals, advertising and promotional allowances that occur between a vendor and a retail organization.

"Those are typically legitimate business decisions the parties make together, but often they aren't communicated among people and departments in the vendor organization," Butler said. "Those often involve larger dollar amounts for things such as advance allowances, markdowns."

The problem is that it leads to wasting time when, for example, a vendor's receivables department goes chasing after legitimate chargebacks due to lack of communication. Sometimes the retailer could do a better job of communication as well.

"A retailer might not put a reference number on a chargeback, and the vendor doesn't know what it's for. ... Communication can be tightened on both sides. The best thing both retailers and vendors can do is make sure agreements are documented and that strong processes are in place—on the vendor side, who approves the deduction, and how it's communicated throughout the organization; on the retailer side, who's authorized to make agreements, who needs vendor sign-off, and the paperwork process to close the loop with the vendor."

Second are "preventable," or operational and compliance, chargebacks. Those include EDI violations, early or late shipments, or missing goods. These are typically the rules the retailer makes, and the same rules for tracking them apply as with intentional chargebacks.

"This is where vendors should be concentrating their time," Butler said. "If the vendor works on and fixes what they're responsible for, they can save hundreds of thousands of dollars. Even if there are certain types of chargebacks that are a problem, or certain retailers where chargebacks are less accurate or a profit center, vendors still can save a lot of money."

The third "bucket" consists of "unauthorized" chargebacks—things you aren't planning and can't necessarily prevent.

"If you have a return allowance, that's 'intentional,' but for unexpected returns you need a process in place. It's sometimes the same with shortages, both carton and concealed" ones, Butler said. "Sometimes you find a disconnect between you and your customer. It's more of a gray area."

BETTER START TALKING The vendor/retailer relationship, and its impact on chargeback resolution, needs to benefit both sides, said George Whalin, president and CEO of Retail Management Consultants in Carlsbad, Calif.

A consultant and author—his new book is Retail Superstars—Whalin's furniture retail clients have included Gallery Furniture in Houston.

"Just pay attention to who's doing it and how often," Whalin said. "Smart vendors have good systems for verifying POs, letting the retailer know when it ships and what's coming, making sure the fabric is right. ... It's 'Business 101' for selling anything."

The communication is particularly important when times are tight at retail.

"There are retailers who might have requirements in place that they let slide during good times that they're now charging for," Butler pointed out. "... Retailers also know who has good information, who's very reliable, and who's going to call them on it."

LIMITING CHARGEBACKS Butler has a series of steps she suggests for vendors seeking to reduce the cost of chargebacks. While the steps take the vendor point of view, retailers also can benefit from learning what type of information they should be providing to improve the process.

Number one is for vendors to do a good job managing chargebacks right when they come in.

"Most retailers do a good job identifying the reason," Butler said. "You need the ability to track by reason code. If the retailer doesn't do that, I'd press to see if they can. They should give you a reason."

Second is getting or using the ability to look at deductions and do an analysis by customer and by reason code in order to help identify whether it's a vendor or a retailer problem.

Third, identify the low-hanging fruit in terms of chargeback resolution.

"If it's an EDI violation, late delivery, or the carton's wrong, it's yes or no," Butler said. "Get customers to send samples of label violations. Depending on the problem, you might say, 'Let me come to your warehouse and see how my products are being delivered.'"

Fourth, partner with customers.

"Look at it from the point of view that I want to improve my relationship with my customers," Butler said. "Vendors with the fewest chargebacks have the best relations with their customers."

Fifth, track chargebacks over the past 12 months by reason and customer codes.

Sixth, decide who's going to own the project of reducing chargebacks.

"After all, the finance department didn't put the labels on wrong," Butler said. "... My best clients are CEOs, because they can say who owns it."

Settlement is the last step.

"Sometimes people are to quick to negotiate a settlement," Butler said. "Figure out the problem, how to fix it moving forward, and then settle old business."

Those negotiations are a lot easier in an atmosphere of trust, Whalin said.

"It's all about the relationship. You sit down and talk to the rep," he said. "You sit down and talk to the sales manager. ... If you can't trust each other, it's very difficult to do business for any extended period of time." HFB

Right or Wrong?

Sometimes a Retailer is Right to Take A Chargeback—Sometimes Not

By Powell Slaughter

Jessica Butler is founder of Attain Consulting Group in Ridgewood, N.J., which specializes in helping companies, mostly vendors, reduce their chargebacks and "deductions," as they're called in some sectors.

"From the retailer point of view, some deductions are very valid if they're trying to control the way they receive the goods, especially with things such as automated receiving, where they have to have a label in the same place on the carton," she said. "If you ask people to do something and there's no bite involved, they may or may not do it."

The same dynamic holds true within the vendor organization when it comes to chargeback resolution and avoidance.

"If they ask departments to improve something, they might not necessarily do it," Butler said. "But if they start seeing chargeback expenses kicked back to different operating units, they are more likely to get into line."

Butler's typically working from the vendor point of view, but that she gets good reception from the retailers she deals with in the process of that work.

"I'm a big vendor advocate, but retailers like me because I'm looking for the 'truth and beauty' of how vendors can do a better job," she said.

George Whalin, president and CEO of Retail Management Consultants in Carlsbad, Calif., said chargeback issues are a regular part of his work.

"The key word there is 'legitimate,'" he said. "Double shipments, shipping the wrong product, defective merchandise—these are all legitimate reasons for chargebacks. Just because business is bad and you overbought, that's not a legitimate reason to go searching for a chargeback."

Are chargebacks a tool for "keeping vendors in line?"

"I don't think it's about keeping vendors in line—it's about doing what's right," Whalin said. "If you receive a double shipment and want a chargeback, that's not being vindictive, it's just doing the right thing, doing good business."

Butler believes certain types of chargebacks, particularly preventable recurring problems or those related to vendor compliance, are valid.

"Vendors are challenged, because everyone's a little different," she said. "If I do business with Wal-Mart, Target and Kohl's, it's hard to meet everyone's needs in the same way, especially with shipping from China, or with drop shipping at the customer's location."

If those problems keep retailers from sticking to merchandising plans or incurring expense, though, the vendor needs to work it out with their customer.

"Other times, if a retailer has a requirement but receiving something another way doesn't incur extra expense or time getting goods to the floor, I don't see why they should chargeback for that," she said.

Types of Chargebacks

Intentional	Preventable	Unauthorized
Typically budgeted, pre-authorized and not recoverable. Considered "cost of doing business".	Generally result from compliance violations. Prevented through negotiated exemptions & sound business practices.	Mix of compliance violations and retailer "games." Need sound business practices & aggressive collection to recover.
• Agreed Upon Discounts • Co-op Advertising • Mark-down Allowances • Rebates • Margin Guarantees	• Wrong / No UPC • EDI / ASN • Wrong SKU • Carton Markings • Late Delivery • Freight / Handling	• Pricing • Returns • Defectives • Full Carton Shortages • Concealed Shortages • Unclassified/ Miscellaneous

Attain Consulting Group 2009 – Deduction Fundamentals

Impact and Improvement Objective Varies by Type

Intentional	Preventable	Unauthorized
"Indirect" impact on profitability – most are authorized and non-recoverable	**"Direct" impact** on profitability – many which are not easily resolved are "split" with retailer	**"Direct" & "indirect" impact** on profitability
Objective is speed! Streamline processing of these chargebacks to focus efforts on other recovery efforts	**Objective is prevention!** Redesign business processes; establish new procedures; practice consistently	**Objective is quick resolution!** Follow-up quickly to resolve open issues; proactively work with retailers to limit "gaming"

Attain Consulting Group 2009 – Deduction Fundamentals

These graphics break down types of deductions (chargebacks), their impact, and how they can be improved.

Butler's seen cases of retailers who are "less inclined" to help vendors decrease chargebacks. She recalled an example of a retailer who had ordered 10 items, two of which the vendor substituted. The retailer demanded a chargeback, but still kept and sold the two replacements.

Retailers who operate in such a way can't count on much vendor support when they need it, Whalin said.

"Any retailer who thinks this is a profit center is a fool," he said. "First of all you're going to antagonize your vendors. ... Retailers who truly care about their relationship with vendors and selling product don't (abuse chargebacks)."